Naledi Local Municipality
Annual Financial Statements
for the year ended 30 June, 2014

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Local Government
Mayoral committee	
Executive Mayor	Ms. Mahase M
Chief Whip	Mr. Tladi GM
Speaker	Ms. Mahase M
Councillors	Mr. Haddad MG
	Mr. Mahloko MD
	Mr. Makitle J
	Mr. Rakhunoane K
	Ms. Sehloho ML
	Mr. Seoko MM
Municipal demarcation code	FS164
Grading of local authority	Grade 1
Capacity of local authority	Low capacity
Chief Finance Officer (CFO)	Mr. Moses T
Accounting Officer	Mr. Lefora QW
Registered office	Municipal Offices 13 Brand Street Dewetsdorp 9940
Business address	Municipal Offices 13 Brand Street Dewetsdorp 9940
Postal address	Private Bag X1 Dewetsdorp 9940
Bankers	ABSA FNB
Auditors	Auditor-General of South Africa
Lawyers	Bahlekazi Attorneys Carrol en Vennote Mabalane Attorneys
Relevant Legislation	Municipal Finance Management Act

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The reports and statements set out below comprise the annual financial statements presented to the council:

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June, 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 84, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August, 2014.

Accounting Officer
Mr. Lefora QW

Dewetsdorp

31 August, 2014

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June, 2014.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 number of meetings were held. The audit committee members are appointed for a period of 3 years.

Name of member	Number of meetings attended
Mr. Segalo M (Chairperson)	4
Me. Molelle T	0
Mr. Rapulungoane	1
Mr. Vapi V	4

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report on the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Mr. Segalo M (Chairperson)

Date: ______________________

Statement of Financial Position as at 30 June, 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	3	81,007	49,787
Receivables from non-exchange transactions	4	1,059,773	3,603,621
VAT receivable	5	1,208,717	593,550
Receivables from exchange transactions	6	2,356,746	12,517,809
Cash and cash equivalents	7	4,427,806	1,441,224
		9,134,049	**18,205,991**
Non-Current Assets			
Investment property	8	1,090,000	2,520,000
Property, plant and equipment	9	263,168,958	264,241,693
Intangible assets	10	311,040	311,040
Other financial assets	11	98,010	73,490
		264,668,008	**267,146,223**
Total Assets		**273,802,057**	**285,352,214**
Liabilities			
Current Liabilities			
Employee benefit obligation	12	275,000	166,964
Unspent conditional grants and receipts	13	4,057,363	112,523
Other financial liabilities	14	108,475	113,845
Provisions	15	12,132,031	11,425,523
Payables from exchange transactions	16	24,938,463	29,307,748
Consumer deposits	17	568,828	560,683
		42,080,160	**41,687,286**
Non-Current Liabilities			
Employee benefit obligation	12	2,757,000	2,569,036
Other financial liabilities	14	201,115	309,591
		2,958,115	**2,878,627**
Total Liabilities		**45,038,275**	**44,565,913**
Net Assets		**228,763,782**	**240,786,301**
Accumulated surplus		228,763,790	240,786,297

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	26,283,300	26,986,780
Interest received - investment	22	121,612	258,982
Dividends received	22	3,263	3,061
Rental of facilities and equipment	24	227,718	318,711
Other income	25	527,368	1,704,518
Discount received	48	8,146,510	-
Total revenue from exchange transactions		**35,309,771**	**29,272,052**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	3,495,164	3,870,194
Transfer revenue			
Government grants & subsidies	21	65,741,682	58,552,272
Public contributions and donations	23	1,245,936	2,203,663
Total revenue from non-exchange transactions		**70,482,782**	**64,626,129**
Total revenue	18	**105,792,553**	**93,898,181**
Expenditure			
Personnel	26	26,768,803	23,706,984
Remuneration of councillors	27	1,965,546	1,926,753
Depreciation	28	17,009,570	18,355,397
Impairment loss	29	23,905,816	3,207,871
Finance costs	30	1,550,605	2,107,485
Repairs and maintenance	31	2,577,983	2,725,845
Bulk purchases	32	20,881,290	20,261,829
General expenses	33	21,654,202	17,295,306
Total expenditure		**116,313,815**	**89,587,470**
Operating (deficit) surplus		**(10,521,262)**	**4,310,711**
Loss on disposal of assets and liabilities	9	-	349,288
Actuarial loss	12	95,769	268,200
Fair value loss	35	1,405,480	-
		(1,501,249)	**(617,488)**
(Deficit) surplus for the year		**(12,022,511)**	**3,693,223**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	251,463,156	251,463,156
Adjustments		
Correction of errors (refer to note 41)	(14,370,082)	(14,370,082)
Balance at 01 July, 2012 as restated*	**237,093,074**	**237,093,074**
Changes in net assets		
Surplus for the year	3,693,223	3,693,223
Total changes	3,693,223	3,693,223
Opening balance as previously reported	245,695,597	245,695,597
Adjustments		
Correction of errors (refer to note 41)	(4,909,296)	(4,909,296)
Balance at 01 July, 2013 as restated*	**240,786,301**	**240,786,301**
Changes in net assets		
Surplus for the year	(12,022,511)	(12,022,511)
Total changes	(12,022,511)	(12,022,511)
Balance at 30 June, 2014	**228,763,790**	**228,763,790**

* See Note 41

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		26,927,099	30,661,627
Grants		69,686,522	55,095,960
Interest income		121,612	258,982
Dividends received		3,263	3,061
Other receipts		2,004,285	4,694,644
		98,742,781	90,714,274
Payments			
Employee costs		(28,734,349)	(25,633,737)
Suppliers		(49,230,795)	(37,539,789)
Finance costs		(1,550,605)	(1,887,713)
		(79,515,749)	(65,061,239)
Net cash flows from operating activities	37	**19,227,032**	**25,653,035**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(16,126,604)	(30,987,844)
Net cash flows from investing activities		**(16,126,604)**	**(31,061,334)**
Cash flows from financing activities			
Repayment of other financial liabilities		(113,846)	423,436
Finance lease payments		-	(219,772)
Net cash flows from financing activities		**(113,846)**	**203,664**
Net increase/(decrease) in cash and cash equivalents		**2,986,582**	**(5,204,635)**
Cash and cash equivalents at the beginning of the year		1,441,224	6,645,859
Cash and cash equivalents at the end of the year	7	**4,427,806**	**1,441,224**

* See Note 41

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 52)
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	33,303,000	-	**33,303,000**	26,283,300	**(7,019,700)**	X1
Rental of facilities and equipment	329,000	-	**329,000**	227,718	**(101,282)**	X2
Discount received	-	-	**-**	8,146,510	**8,146,510**	X3
Other revenue	7,885,000	(2,164,000)	**5,721,000**	526,447	**(5,194,553)**	X4
Interest received - investment	136,000	(67,000)	**69,000**	121,612	**52,612**	X5
Dividends received	5,000	-	**5,000**	3,263	**(1,737)**	X6
Total revenue from exchange transactions	**41,658,000**	**(2,231,000)**	**39,427,000**	**35,308,850**	**(4,118,150)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	4,272,000	468	**4,272,000**	3,495,164	**(776,836)**	X7
Fines	7,000	(5,000)	**2,000**	921	**(1,079)**	X8
Government grants & subsidies	40,740,000	1,000,000	**41,740,000**	46,459,524	**4,719,524**	X9
Transfer revenue						
Public contributions and donations	-	-	**-**	1,245,936	**1,245,936**	
Capital transfer and grants	28,919,000	(12,543,000)	**16,376,000**	19,282,158	**2,906,158**	X10
Total revenue from non-exchange transactions	**73,938,000**	**(11,547,532)**	**62,390,000**	**70,483,703**	**8,093,703**	
Total revenue	**115,596,000**	**(13,778,532)**	**101,817,000**	**105,792,553**	**3,975,553**	
Expenditure						
Personnel	(27,843,000)	(3,143,000)	**(30,986,000)**	(26,768,803)	**4,217,197**	X11
Remuneration of councillors	(1,818,000)	(166,000)	**(1,984,000)**	(1,965,546)	**18,454**	
Transfer payments	-	(955,000)	**(955,000)**	-	**955,000**	X12
Depreciation and amortisation	(1,500,000)	-	**(1,500,000)**	(17,009,570)	**(15,509,570)**	X13
Impairment loss/ Reversal of impairments	(5,000,000)	-	**(5,000,000)**	(23,905,816)	**(18,905,816)**	X13
Finance costs	(55,000)	6,000	**(49,000)**	(1,550,605)	**(1,501,605)**	X14
Debt impairment	(5,000,000)	-	**(5,000,000)**	-	**5,000,000**	X15
Bulk purchases	(32,170,000)	2,571,000	**(29,599,000)**	(20,881,290)	**8,717,710**	X16
General expenses	(17,967,000)	2,604,000	**(15,363,000)**	(24,232,185)	**(8,869,185)**	X17
Total expenditure	**(91,353,000)**	**917,000**	**(90,436,000)**	**(116,313,815)**	**(25,877,815)**	
Operating deficit	**24,243,000**	**(12,861,532)**	**11,381,468**	**(10,521,262)**	**(21,902,730)**	
Fair value adjustments	-	-	**-**	(1,405,480)	**(1,405,480)**	X18
Actuarial (gain) / loss	-	-	**-**	95,769	**95,769**	X19
	-	**-**	**-**	**(1,501,249)**	**(1,501,249)**	
Deficit	**24,243,000**	**(12,861,532)**	**11,381,468**	**(12,022,511)**	**(23,403,979)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**24,243,000**	**(12,861,532)**	**11,381,468**	**(12,022,511)**	**(23,403,979)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (note 52)

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	4,272,000	-	4,272,000	-		4,272,000	3,495,164		(776,836)	82 %	82 %
Service charges - electricity	22,841,000	-	22,841,000	-		22,841,000	6,819,870		(16,021,130)	30 %	30 %
Service charges - water	4,084,000	-	4,084,000	-		4,084,000	5,098,200		1,014,200	125 %	125 %
Service charges - sanitation revenue	3,790,000	-	3,790,000	-		3,790,000	3,454,459		(335,541)	91 %	91 %
Service charges - refuse removal	2,588,000	-	2,588,000	-		2,588,000	2,272,416		(315,584)	88 %	88 %
Rental of facilities and equipment	329,000	-	329,000	-		329,000	227,718		(101,282)	69 %	69 %
Interest earned	136,000	(67,000)	69,000	-		69,000	121,612		52,612	176 %	89 %
Dividends received	5,000	-	5,000	-		5,000	3,263		(1,737)	65 %	65 %
Fines	7,000	(5,000)	2,000	-		2,000	-		(2,000)	- %	- %
Grant income (operational)	40,740,000	1,000,000	41,740,000	-		41,740,000	46,459,524		4,719,524	111 %	114 %
Other own revenue	7,885,000	(2,164,000)	5,721,000	-		5,721,000	8,926,116		3,205,116	156 %	113 %
Total revenue (excluding capital transfers and contributions)	**86,677,000**	**(1,236,000)**	**85,441,000**	**-**		**85,441,000**	**76,878,342**		**(8,562,658)**	**90 %**	**89 %**
Employee costs	(27,843,000)	(3,143,000)	(30,986,000)	-	-	(30,986,000)	(26,768,803)	-	4,217,197	86 %	96 %
Remuneration of councillors	(1,818,000)	(166,000)	(1,984,000)	-	-	(1,984,000)	(1,965,546)	-	18,454	99 %	108 %
Debt impairment	(5,000,000)	-	(5,000,000)			(5,000,000)	-	-	5,000,000	- %	- %
Depreciation and asset impairment	(1,500,000)	-	(1,500,000)			(1,500,000)	(40,915,386)	-	(39,415,386)	2,728 %	2,728 %
Finance charges	(55,000)	6,000	(49,000)	-	-	(49,000)	(1,550,605)	-	(1,501,605)	3,165 %	2,819 %
Bulk purchases	(32,170,000)	2,571,000	(29,599,000)	-	-	(29,599,000)	(20,881,290)	-	8,717,710	71 %	65 %
Contracted services	(2,530,000)	681,000	(1,849,000)	-	-	(1,849,000)	-	-	1,849,000	- %	- %

Appropriation Statement

Figures in Rand

	Original budget	**Budget adjustments (i.t.o. s28 and s31 of the MFMA)**	**Final adjustments budget**	**Shifting of funds (i.t.o. s31 of the MFMA)**	**Virement (i.t.o. council approved policy)**	**Final budget**	**Actual outcome**	**Unauthorised expenditure**	**Variance**	**Actual outcome as % of final budget**	**Actual outcome as % of original budget**
Transfer and grants	-	(955,000)	(955,000)	-	-	(955,000)	-	-	955,000	- %	DIV/0 %
Other expenditure	(15,437,000)	1,923,000	(13,514,000)	-	-	(13,514,000)	(24,232,185)	-	(10,718,185)	179 %	157 %
Total expenditure	**(86,353,000)**	**917,000**	**(85,436,000)**	**-**	**-**	**(85,436,000)**	**(116,313,815)**	**-**	**(30,877,815)**	**136 %**	**135 %**
Surplus/(Deficit)	**324,000**	**(319,000)**	**5,000**	**-**		**5,000**	**(39,435,473)**		**(39,440,473)**	**788,709)%**	**(12,171)%**
Transfers recognised - capital	29,338,000	(13,442,000)	15,896,000	-		15,896,000	19,282,158		3,386,158	121 %	66 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1,245,936		1,245,936	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**29,662,000**	**(13,761,000)**	**15,901,000**	**-**		**15,901,000**	**(18,907,379)**		**(34,808,379)**	**(119)%**	**(64)%**
Surplus/(Deficit) for the year	**29,662,000**	**(13,761,000)**	**15,901,000**	**-**		**15,901,000**	**(18,907,379)**		**(34,808,379)**	**(119)%**	**(64)%**

Capital expenditure and funds sources

Total capital expenditure	29,338,000	(13,442,000)	15,896,000	-		15,896,000	(16,126,604)		(32,022,604)	(101)%	(55)%
Sources of capital funds											
National Government	21,385,000	(5,574,000)	15,811,000	-		15,811,000	-		(15,811,000)	- %	- %
Provincial Government	7,850,000	(7,850,000)	-	-		-	-		-	DIV/0 %	- %
Internally generated funds	103,000	(18,000)	85,000	-		85,000	-		(85,000)	- %	- %
Total sources of capital funds	**29,338,000**	**(13,442,000)**	**15,896,000**	**-**		**15,896,000**	**-**		**(15,896,000)**	**- %**	**- %**

Appropriation Statement

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	21,338,000	(14,940,000)	6,398,000	-		6,398,000	19,227,032		12,829,032	301 %	90 %
Net cash from (used) investing	29,338,000	(40,540,000)	(11,202,000)	-		(11,202,000)	(16,126,604)		(4,924,604)	144 %	(55)%
Net cash from (used) financing	-	(400,000)	(400,000)	-		(400,000)	(113,846)		286,154	28 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**50,676,000**	**(55,880,000)**	**(5,204,000)**	**-**		**(5,204,000)**	**2,986,582**		**8,190,582**	**(57)%**	**6 %**
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	1,441,224		1,441,224	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**50,676,000**	**(55,880,000)**	**(5,204,000)**	**-**		**(5,204,000)**	**4,427,806**		**(9,631,806)**	**(85)%**	**9 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Significant judgements include:

Receivables

The municipality assesses its receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors such as inflation and interest.

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

Effective interest rate

The municipality used the government bond rate to discount future cash flows.

Allowance for impairment

For receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost.

Accounting Policies

1.5 Property, plant and equipment (continued)

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, it's cost is measured at the carrying amount of the asset given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	30 years
Community assets	10 - 30 years
Infrastructure assets	5 - 30 years
Other property, plant and equipment	3 - 15 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

1.5 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

IThe related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits or service potential;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

1.7 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses, but due to the nature of the intangible assets it is highly unlikely that any amortisation or impairment will be incurred during the life span of the asset.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis to their estimated residual values, as follows:

Item	**Useful life**
Servitudes	Indefinite

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measures at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial assets and financial liabilities initially at fair value.

The municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the municipality analyses a concessionary loan into its component parts and accounts for each component separately. The municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability in the case of a financial asset.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognises the asset; and
  - recognises separately any rights and obligations created or retained in the transfer.

The carrying amount of the transferred asset is allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Accounting Policies

1.11 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which the municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the municipality accounts for the plan as if it was a defined contribution plan.

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Accounting Policies

1.15 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Interest and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, the municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.17 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Collection charges and penalties

Collection charges and penalty interest is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with the relevant legal requirements (if applicable).

Fines

Fines constitute both fines and summonses for which revenue is recognised when payment is received.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by the municipality on terms that are not market related.

1.17 Revenue from non-exchange transactions (continued)

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

1.18 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. Refer to note for detail.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Accumulated surplus

The accumulated surplus/deficit represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

1.24 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;

Accounting Policies

1.24 Grants in aid (continued)

- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving raise to the transfer occurred.

1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

1.26 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01-Jul-13 to 30-Jun-14.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Comparative information is not required.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management is those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.28 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

1.29 Value-added tax (VAT)

The municipality accounts for value-added tax (VAT) on the payment basis.

Figures in Rand	2014	2013

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this standard (GRAP 25) and IAS 19(R) is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

All amendments to be applied retrospectively.

The effective date of the standard is for years beginning on or after 01 April, 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is not material.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a standard of GRAP would otherwise require or permit to be measured at fair value is no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

The effective date of the amendment is for years beginning on or after 01 April, 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Amendments were made to measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Amendments were made to disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furhtermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Amendments were made to measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furhtermore the requirement to disclose property, plant and equipment that were temporarily idle has been clarified.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 27 and GRAP 31 (as revised 2012)

These Standards of GRAP replace the previous Standard of GRAP on Agriculture (GRAP 101) and Standard of GRAP on Intangible Assets due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27) and Intangible Assets (IPSAS 31) respectively.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation now addresses the manner in which the municipality applies the probability test on initial recognition of both:

(a) exchange revenue (GRAP 9); and
(b) non-exchange revenue (GRAP 23).

All amendments to be applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 April, 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely and primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

Interpretation to be applied retrospectively.

The effective date of the interpretation is for years beginning on or after 01 April, 2013.

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July, 2014 or later periods:

GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the the Minister and its effective date is 1 April 2015.

The municipality expects to adopt the standard for the first time once it become effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

The standard has been approved by the the Minister and its effective date is 1 April 2015.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The standard has been approved by the the Minister and its effective date is 1 April 2015.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 5 (revised 2013): Borrowing Costs

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 100 (revised 2013): Discontinued Operations

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July, 2014 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

2. New standards and interpretations (continued)

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard states that a related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- control;
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favorable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, by-laws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Inventories

Consumable stores	68,852	40,429
Water	12,155	9,358
	81,007	**49,787**

Consumables recognised as an expense during the year	52,260	107,590
Water purchases (bulk) recognised as an expense during the year	5,396,249	4,965,018

In the prior year inventories were written down to net realisable value, due to the age and condition of the inventory.

Inventory pledged as security

None of the inventory were pledged as security.

4. Receivables from non-exchange transactions

Property rates	8,542,408	7,554,541
Less: Allowance for impairment	(7,482,635)	(3,950,920)
	1,059,773	**3,603,621**

Property rates: Gross balance		
Current	88,566	100,727
31 - 60 days	73,600	91,962
61 - 90 days	70,601	90,881
91 - 120 days	67,389	78,679
> 120 days	8,242,252	7,192,292
	8,542,408	**7,554,541**

Property rates: Allowance for impairment		
Balance	(7,482,635)	(3,950,920)

Property rates: Net balance		
Balance	1,059,773	3,603,621

Receivables from non-exchange transactions pledged as security

Receivables from non-exchange transactions were not pledged as security.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Receivables from non-exchange transactions past due but not impaired

All of the amounts past due was impaired.

Reconciliation of allowance for impairment

Opening balance	3,950,920	4,337,960
Allowance for impairment	3,531,715	-
Unused amounts reversed	-	(387,040)
	7,482,635	**3,950,920**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

5. VAT

VAT receivable	4,994,815	3,734,505
VAT payable	(3,786,098)	(3,140,955)
	1,208,717	**593,550**

The municipality is registered on the payment basis for VAT.

6. Receivables from exchange transactions

Gross balances		
Electricity	2,699,746	2,141,075
Water	16,250,958	11,598,595
Sewerage	11,162,131	8,660,245
Refuse	8,532,989	6,597,460
Sundry services	2,467,916	2,400,542
	41,113,740	**31,397,917**
Less: Allowance for impairment		
Impairment total	(38,756,994)	(18,880,108)
Net balance		
Receivables from exchange transactions	2,356,746	12,517,809
Electricity		
Current (0 -30 days)	394,119	312,562
31 - 60 days	188,116	149,188
61 - 90 days	93,900	74,469
>90 days	2,023,611	1,604,856
	2,699,746	**2,141,075**
Water		
Current (0 -30 days)	1,108,980	595,547
31 - 60 days	450,158	419,147
61 - 90 days	437,527	442,429
91 - 120 days	330,251	361,230
> 120 days	13,924,042	9,780,242
	16,250,958	**11,598,595**
Sewerage		
Current (0 -30 days)	276,624	267,579
31 - 60 days	261,057	261,988
61 - 90 days	257,939	254,478
91 - 120 days	256,689	244,916
> 120 days	10,109,822	7,631,284
	11,162,131	**8,660,245**
Refuse		
Current (0 -30 days)	189,268	181,885
31 - 60 days	181,870	179,762
61 - 90 days	179,533	177,635
91 - 120 days	178,591	173,459
> 120 days	7,803,727	5,884,719
	8,532,989	**6,597,460**

Figures in Rand	2014	2013

6. Receivables from exchange transactions (continued)

Sundries		
Current (0 -30 days)	15,099	15,438
31 - 60 days	10,080	11,332
61 - 90 days	10,080	11,327
91 - 120 days	9,390	10,050
>120 days	2,423,267	2,352,395
	2,467,916	**2,400,542**

Summary of receivables by customer classification

Domestic		
Current (0 -30 days)	962,919	890,808
31 - 60 days	1,043,443	922,141
61 - 90 days	1,019,262	951,946
91 - 120 days	894,594	873,095
> 120 days	42,151,781	32,004,963
	46,071,999	35,642,953
Less: Allowance for impairment	(42,991,940)	(18,986,323)
	3,080,059	**16,656,630**

Business and farms		
Current (0 -30 days)	25,123	20,007
31 - 60 days	15,333	1,142
61 - 90 days	15,336	(37,139)
91 - 120 days	13,563	(11,916)
>120 days	3,312,400	2,265,080
	3,381,755	2,237,174
Less: Allowance for impairment	(3,247,690)	(2,090,483)
	134,065	**146,691**

National and provincial government		
Current (0 -30 days)	60,820	(48,541)
31 - 60 days	43,090	(22,509)
61 - 90 days	41,682	(23,885)
91 - 120 days	41,396	(177,549)
> 120 days	1,632,585	2,718,378
	1,819,573	**2,445,894**

Less: Allowance for impairment		
Current (0 -30 days)	(38,756,994)	(18,880,108)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(18,880,108)	(44,766,522)
Contributions to allowance	(19,876,886)	-
Reversal of allowance	-	25,886,414
	(38,756,994)	**(18,880,108)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

6. Receivables from exchange transactions (continued)

Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Receivables from exchange transactions past due but not impaired

All receivables from exchange transactions are considered for impairment.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2014	2013
Bank balances	4,398,389	1,413,249
Short-term deposits	29,417	27,975
	4,427,806	**1,441,224**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2014	**30 June, 2013**	**30 June, 2012**	**30 June, 2014**	**30 June, 2013**	**30 June, 2012**
ABSA Bank - Current account - 406 653 1831	3,429,074	657,264	4,574,623	3,429,074	657,264	4,574,623
ABSA Bank - Current account - 186 027 0184	873,375	602,539	2,044,483	873,375	602,539	2,044,483
ABSA Bank - Short term deposit - 906 109 3425	29,417	27,975	26,753	29,417	27,975	26,521
FNB - Current account - 624 019 56729	106,630	153,447	-	95,940	153,447	-
Total	**4,438,496**	**1,441,225**	**6,645,859**	**4,427,806**	**1,441,225**	**6,645,627**

Pledged as security

None of these assets were pledge as security.

8. Investment property

	2014			2013		
	Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,090,000	-	1,090,000	2,520,000	-	2,520,000

Reconciliation of investment property - 2014

	Opening balance	Fair value adjustments	Total
Investment property	2,520,000	(1,430,000)	1,090,000

8. Investment property (continued)

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	2,520,000	2,520,000

Pledged as security

None of these assets were pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of property

	2014	2013
Dwelling 278		
On erven 278 in Wepener		
- Opening balance	510,000	510,000
- Fair value adjustments	(270,000)	-
	240,000	**510,000**

The cost price of the asset is not available and not registered in the deed registry, the asset was purchased on 3 July 1939.

The dwelling consists of a single story residential unit, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with tile and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

	2014	2013
Dwelling 296		
On erven 296 in Wepener		
- Opening balance	210,000	210,000
- Fair value adjustment	60,000	-
	270,000	**210,000**

The cost price of the asset is not available and not registered in the deed registry, the asset was purchased on 3 July 1939.

Two single story residential units, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with novilon and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

	2014	2013
Flats at 42 Hooge Street		
On erven 315, 317 and 319 in Dewetsdorp		
- Opening balance	1,800,000	1,800,000
- Fair value adjustment	(1,220,000)	-
	580,000	**1,800,000**

The cost price of the asset was R8,000, the assets were purchased on 8 October 1993 and 24 March 1994.

A townhouse complex situated on 42 Hooge street, Dewetsdorp. Complex consisting of 10 units.The demand for this this type and quality of property in this specific area is low.The improvements have generally been well maintained and the stands are not fully utilized.

8. Investment property (continued)

Details of valuation

The effective date of the revaluations was 30 June, 2014. Revaluations were performed by an independent valuer, Raymond Taylor [Professional Associate Valuer Reg. No. 5916/1], of NID Valuators. NID Valuators are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Amounts recognised in surplus and deficit for the year.

	2014	2013
Rental revenue from investment property	103,678	95,670

9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	36,684,613	(27,808,207)	8,876,406	36,684,613	(26,729,704)	9,954,909
Work in progress	29,900,580	-	29,900,580	20,888,984	-	20,888,984
Infrastructure	431,958,911	(237,902,168)	194,056,743	424,957,298	(225,095,463)	199,861,835
Community	66,232,885	(38,866,404)	27,366,481	66,232,885	(36,610,109)	29,622,776
Other property, plant and equipment	10,916,650	(7,947,902)	2,968,748	10,993,025	(7,079,836)	3,913,189
Total	**575,693,639**	**(312,524,681)**	**263,168,958**	**559,756,805**	**(295,515,112)**	**264,241,693**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Completed projects transferred and recognised	Depreciation	Impairment loss	Total
Buildings	9,954,909	-	-	(1,078,503)	-	8,876,406
Work in progress	20,888,984	16,013,210	(7,001,614)	-	-	29,900,580
Infrastructure	199,861,835	-	7,001,614	(12,806,706)	-	194,056,743
Community	29,622,776	-	-	(2,256,295)	-	27,366,481
Other property, plant and equipment	3,913,189	113,394	-	(868,066)	(189,769)	2,968,748
	264,241,693	**16,126,604**	**-**	**(17,009,570)**	**(189,769)**	**263,168,958**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	10,722,240	319,169	-	(1,086,500)	9,954,909
Work in progress	5,994,138	14,894,846	-	-	20,888,984
Infrastructure	198,298,060	15,571,151	(349,288)	(13,658,088)	199,861,835
Community	31,965,108	-	-	(2,342,332)	29,622,776
Other property, plant and equipment	4,978,988	202,678	-	(1,268,477)	3,913,189
	251,958,534	**30,987,844**	**(349,288)**	**(18,355,397)**	**264,241,693**

9. Property, plant and equipment (continued)

Pledged as security

None of these assets were pledged as security.

Reconciliation of Work-in-Progress 2014

	Opening balance	Additions	Transfers	Total
Work in progress	20,888,985	16,013,210	(7,001,614)	29,900,581

Reconciliation of Work-in-Progress 2013

	Opening balance	Additions	Total
Work in progress	5,994,138	14,894,847	20,888,985

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The user of the financial statements should take note that the Van Stadensrus Sports stadium which is currently disclosed as Work in Progress within the asset categories of Naledi Local Municipality, could be subject to overstatement and possible impairment as and when the asset will be recognised as an addition. This is attributable due to possible over capitalising of the project as the first contractor had been replaced.

10. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	311,040	-	311,040	311,040	-	311,040

Reconciliation of intangible assets - 2014

	Opening balance	Total
Servitudes	311,040	311,040

Reconciliation of intangible assets - 2013

	Opening balance	Total
Servitudes	311,040	311,040

Pledged as security

None of these assets were pledged as security.

10. Intangible assets (continued)

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The useful life was reviewed and no events and circumstances were identified which does not support an indefinite useful life assessment.

The intangible assets are deemed to be indefinite due to the nature of the asset.

11. Other financial assets

	2014	2013
Designated at fair value		
Senwes Ltd shares 1455 shares @ R10.25 (2013: R10.58) per share	15,036	15,400
Senwesbel Ltd shares 2230 shares @ R5.50 (2013: R5.00) per share	12,265	11,150
OVK Holdings Ltd shares 3406 shares @ R10.49 (2013: R6.50) per share	35,729	22,139
OVK Operations ltd shares 3273 shares @ R10.61 (2013: R7.50) per share	34,980	24,801
	98,010	**73,490**

	2014	2013
Non-current assets		
Fair value	98,010	73,490

Valuation of financial assets

12. Employee benefit obligations

	2014	2013
Non-Current liabilities		
Post- employment medical aid benefit	1,065,000	1,091,355
Long service award	1,692,000	1,477,681
	2,757,000	**2,569,036**
Current liabilities		
Post- employment medical aid benefit	144,000	133,645
Long service award	131,000	33,319
	275,000	**166,964**
Amounts recognised in the statement of financial performance		
Current service cost	217,000	159,000
Finance cost	210,000	181,000
Actuarial loss	95,769	268,200
	522,769	**608,200**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Employee benefit obligations (continued)

Post- employment medical aid benefit

Medical Aid Scheme Arrangements

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

(a) All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy to the maximum (CAP) amount of R3,618.04 (per month per member) for the period 1 July 2014 to 30 June 2015. The maximum (CAP) amount was R3,557.65 in the previous year.
(b) The maximum subsidy is expected to increase at 50% of inflation.

Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	1,225,000	1,159,000
Benefits paid	(139,000)	(131,000)
Net expense recognised in the statement of financial performance	123,000	197,000
	1,209,000	**1,225,000**

Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Interest cost	91,000	87,000
Actuarial loss	32,000	110,000
	123,000	**197,000**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.94 %	7.89 %
Consumer price inflation	7.05 %	6.14 %
Medical cost trend rates	8.05 %	7.14 %
Nett effective discount rate	0.82 %	0.70 %

Discount rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The rate was therefore set as the yield of the R209 South African government bond as at the valuation date. The actual yield don the R209 bond was sourced from the RMB Global Markets' website on year end.

Medical aid inflation

The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate inflation. We have derived the underlying future rate of consumer price index (CPI inflation) from the relationship between the current conventional government bond yields (R209) and current index-linked bond yields (R202).

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates increased for the last ten years show that registered medical aid schemes' contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstripped general inflation by 1% per annum over the foreseeable future.

Mortality rates

Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumptions was made about additional mortality or health care costs due to AIDS.

Spouses and dependants

Where necessary it was assumed that female spouses would be 5 years younger that their male spouses at retirement and vice versa.

12. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	20% Mortality rate decrease	20% Mortality rate increase
Effect on the aggregate of the service cost and interest cost	113,000	93,000
Effect on post - employment medical aid benefit obligation	1,338,000	1,106,000

	1% Medical aid inflation decrease	1% Medical aid inflation increase
Effect on the aggregate of the service cost and interest cost	99,000	104,000
Effect on post - employment medical aid benefit obligation	1,181,000	1,231,000

Long service award benefit

Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	1,511,000	1,122,000
Benefits paid	(140,000)	(17,000)
Net expense recognised in the statement of financial performance	452,000	406,000
	1,823,000	**1,511,000**

Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Current service cost	217,000	159,000
Interest cost	119,000	94,000
Actuarial (gains) losses	116,000	153,000
	452,000	**406,000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.96 %	7.40 %
Consumer price inflation	6.33 %	5.66 %
Normal salary increase rate	7.33 %	6.66 %
Nett effective discount rate	0.59 %	0.69 %

Discount rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yield at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficient long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The rate was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield don the R208 bond was sourced from the RMB Global Markets' website on year end.

12. Employee benefit obligations (continued)

Normal salary inflation

We have derived the underlying future rate of the consumer price index (CPI) from the relationship between the current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets' website on year end. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 1 July 2014 of 6.79%. The next salary increase was assumed to take place on 1 July 2015.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Age band	Promotional Increase
20 - 24	5 %
25 - 29	4 %
30 - 34	3 %
35 - 39	2 %
40 - 44	1 %
	15 %

Average retirement rate

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal retirement age

The normal retirement age (NORA) for all active employees was assumed to be 65 years.

Mortality rate

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal decreasements

The following table sets out the assumed rates of withdrawal from service:

Age band	Withdrawal rate - males	Withdrawal rate - females
20 - 24	16 %	24 %
25 - 29	12 %	18 %
30 - 34	10 %	15 %
35 - 39	8 %	10 %
40 - 44	6 %	6 %
45 - 49	4 %	4 %
50 - 54	2 %	2 %
55 - 59	1 %	1 %
60 +	- %	- %

Sensitivity analysis - Withdrawal rate

Deviations form the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher tan the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa.

A twenty percentage point change in the assumed withdrawal rate trend would have the following effects:

12. Employee benefit obligations (continued)

	20% point increase	20% point decrease
Total accrued liability	1,701,000	1,960,000
Current service cost	218,000	262,000
Interest cost	138,000	161,000

Sensitivity analysis - Normal salary inflation

The cost of the long service awards is dependant on the increase in the annual salaries paid to the employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees.

A one percentage point change in assumed normal salary inflation trends would have the following effects:

	1% point increase	1% point decrease
Total accrued liability	1,968,000	1,693,000
Current service cost	259,000	220,000
Interest cost	161,000	138,000

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Improvement Grant	-	112,523
Expanded Public Works Programme	438,054	-
Department of Water Affairs	3,619,309	-
	4,057,363	**112,523**

Movement during the year

Balance at the beginning of the year	112,523	-
Additions during the year	23,338,900	20,963,000
Income recognition during the year	(19,282,158)	(20,850,477)
Unspent grants returned	(111,902)	-
	4,057,363	**112,523**

See note 21 for reconciliation of grants from National/Provincial Government.

14. Other financial liabilities

At amortised cost		
Centlec loan	309,590	423,436
Non-current liabilities		
At amortised cost	201,115	309,591
Current liabilities		
At amortised cost	108,475	113,845

Notes to the Annual Financial Statements

Figures in Rand

15. Provisions

Reconciliation of landfill closure cost - 2014

	Opening Balance	Additions	Total
Dewetsdorp	7,329,568	454,183	7,783,751
Van Stadensrus	1,486,513	91,319	1,577,832
Wepener	2,609,442	161,006	2,770,448
	11,425,523	**706,508**	**12,132,031**

Reconciliation of landfill closure cost - 2013

	Opening Balance	Additions	Total
Dewetsdorp	6,877,382	452,186	7,329,568
Van Stadensrus	1,394,800	91,713	1,486,513
Wepener	2,448,091	161,351	2,609,442
	10,720,273	**705,250**	**11,425,523**

Environmental rehabilitation cost

In order to determine the rehabilitation cost for each site the Minimum Requirements (2nd Edition, 1998) form the Department of Water affairs and Forestry (DWAF) were used as a guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of a licensed site.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

15. Provisions (continued)

The closure of a landfill site, regardless if it is licensed/permitted or not, requires a closure license as well as rehabilitation. The Minimum Requirements states that "in order to close a landfill properly, however, closure must be precede by rehabilitation to ensure that the site is environmentally acceptable". Due to the fact that the same requirements are set for the closure process for licensed/permitted and unlicensed/unpermitted sites, no distinction in the description of the process were made between licensed/permitted and unlicensed/unpermitted sites in the calculations.

The actual cost are determined by calculating the volumes of excavations, material required and legal requirements according to the footprint of each individual site. For a new estimate the rates used for each item of work is based on current rates for similar activities. We compare recent rates for the items, which would include labour costs as priced by civil contractors and we can determine a good average to use in the calculations.

Provision to obtain a closure license was therefore included in the estimate for each site. No disposal values were available and assumptions were made related to the population and average waste generation rates to estimate the waste volumes received per site. The was necessary to assume a classification according to the Minimum Requirements in order to determine the capping requirements.

A contingent liability is raised for a possible penalty to be imposed for operating an unlicensed landfill site by the Department of Environmental Affairs. Refer to the note on contingent liabilities for the detail.

The municipality have the following unlicensed landfill sites at year end:

None of the sites under consideration are permitted/licensed:
(a) Dewetsdorp
(b) Van Stadensrus
(c) Wepener

16. Payables from exchange transactions

Trade payables	6,505,578	16,411,726
Payments received in advanced (Centlec)	40,921	86,836
Payments received in advance (Naledi)	1,275,216	1,057,890
Accrued leave pay	2,166,409	1,894,383
13th Cheque	816,091	633,770
Sundry deposits	350	350
Suspense account	20,556	477,388
Centlec	12,697,190	7,301,534
Retentions	1,416,152	1,443,871
	24,938,463	**29,307,748**

17. Consumer deposits

Electricity (Centlec and Naledi)	173,160	155,650
Water	395,668	405,033
	568,828	**560,683**

18. Revenue

Service charges	26,283,300	26,986,780
Rental of facilities and equipment	227,718	318,711
Discount received	8,146,510	-
Other income	527,368	1,704,518
Interest received	121,612	258,982
Dividends received	3,263	3,061
Property rates	3,495,164	3,870,194
Government grants & subsidies	65,741,682	58,552,272
Public contributions and donations	1,245,936	2,203,663
	105,792,553	**93,898,181**

Figures in Rand	2014	2013

18. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	26,283,300	26,986,780
Rental of facilities and equipment	227,718	318,711
Discount received	8,146,510	-
Other income	527,368	1,704,518
Interest received	121,612	258,982
Dividends received	3,263	3,061
	35,309,771	**29,272,052**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,495,164	3,870,194
Transfer revenue		
Government grants & subsidies	65,741,682	58,552,272
Public contributions and donations	1,245,936	2,203,663
	70,482,782	**64,626,129**

19. Service charges

Sale of electricity	15,458,225	16,295,036
Sale of water	6,062,691	6,398,297
Solid waste	3,824,271	3,660,732
Sewerage and sanitation charges	5,450,077	5,129,256
Water rebate	(964,491)	(1,176,027)
Solid waste rebate	(1,551,855)	(1,452,348)
Sewerage and sanitation rebate	(1,995,618)	(1,868,166)
	26,283,300	**26,986,780**

20. Property rates

Rates received

Residential	2,387,585	2,398,883
Commercial	228,134	124,729
State	26,308	1,095,821
Small holdings and farms	1,754,446	2,881,170
Less: Rebates	(901,309)	(2,630,409)
	3,495,164	**3,870,194**

Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2011.

Rates are levied on an annual basis with the final date for payment being 30 June, 2014 .

The new general valuation will be implemented on 01 July 2015.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies

Operating grants		
Equitable share	38,199,524	37,182,000
Financial Management Grant	1,650,000	1,500,000
Municipal Systems Improvement Grant	890,000	687,477
COGTA	5,720,000	720,000
	46,459,524	40,089,477
Capital grants		
Municipal Infrastructure Grant	16,295,621	16,962,795
Integrated National Electrification Programme	-	500,000
Expanded Public Works Programme	561,946	1,000,000
Department of Water Affairs	2,424,591	-
	19,282,158	18,462,795
	65,741,682	**58,552,272**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	19,282,158	18,462,795
Unconditional grants received	46,459,524	40,089,477
	65,741,682	**58,552,272**

Equitable Share

Equitable share received during the year	38,199,524	37,182,000

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	2,869,430
Current-year receipts	16,295,000	17,163,000
Conditions met - transferred to revenue	(16,295,000)	(17,163,000)
Other	-	(2,869,430)
	-	**-**

In terms of the Constitution, this grant is used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	112,523	170,362
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(687,477)
Unspent and returned to the National Revenue Fund	(112,523)	(170,362)
	-	**112,523**

Conditions still to be met - remain liabilities (see note 13).

The unspent balance of the prior year was deducted form the equitable share allocation of the current financial year.

In term of the constitution, this grant is used for building the capacity of the municipalities to implement sound institutional and governance systems required in terms of local government legislation.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

21. Government grants and subsidies (continued)

Expanded Public Works Program (EPWP)

Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(561,946)	(1,000,000)
	438,054	**-**

Conditions still to be met - remain liabilities (see note 13). A request for roll-over was submitted and approved, the amount is committed and will be spend before 31 August 2014.

The EPWP is a nationwide programme covering all spheres of government and state-owned enterprises. The Programme provides an important avenue for labour absorption and income transfers to poor households in the short to medium-term. It is also a deliberate attempt by the public sector bodies to use expenditure on goods and services to create work opportunities for the unemployed.

Financial Management Grant

Balance unspent at beginning of year	-	529,043
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,500,000)
Other	-	(529,043)
	-	**-**

In terms of the constitution, this grant is used to assist and support the implementation of the financial management reforms, attendance at accredited training sessions and capacity building programmes on financial management.

Integrated National Electrification Grant

Current-year receipts	-	500,000
Conditions met - transferred to revenue	-	(500,000)
	-	**-**

In terms of the constitution, this grant is for the refurbishment of critical infrastructure.

Department of Water Affairs

Current-year receipts	6,043,900	-
Conditions met - transferred to revenue	(2,424,591)	-
	3,619,309	**-**

Conditions still to be met - remain liabilities (see note 13). A request for roll-over was submitted and approved, the amount is committed and will be spend before 30 June 2015.

In terms of the constitution, this grant is for the drilling and maintaining of boreholes in the Naledi district.

COGTA

Current year receipts	5,720,000	720,000
Conditions met - transferred to revenue	(5,720,000)	(720,000)
	-	**-**

Financial assistance received from COGTA to pay Bloemwater account.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	3,263	3,061
Interest revenue		
Centlec	-	104,411
Cash and cash equivalents	121,612	154,571
	121,612	**258,982**
	124,875	**262,043**

23. Public contributions and donations

Local Government (COGTA, National Treasury)	1,245,936	2,203,663

COGTA and National Treasury paid AGSA on behalf of Naledi Municipality in an attempt to reduce the audit fee.

24. Rental income

Premises		
Town hall	14,540	16,226
Houses	103,678	95,670
Vodacom and MTN	102,959	189,654
Town land	3,541	3,541
Camps	3,000	13,620
	227,718	**318,711**

25. Other income

Other income	330,505	144,336
Sundry revenue	163,238	154,185
Centlec - other income	32,704	1,401,786
Fines	921	4,211
	527,368	**1,704,518**

26. Employee related costs

Basic	15,770,480	15,143,610
FMG salaries	690,000	240,000
Contribution to medical aid, bargaining council, pension and provident fund	4,249,383	3,603,742
UIF	193,065	154,785
Wages	81,828	77,000
Skills development levy	207,489	180,391
Leave pay provision charge	272,025	413,523
Travel, motor car, accommodation, subsistence and other allowances	1,911,872	1,287,059
Overtime payments	1,315,471	729,738
13th Cheques	1,258,990	1,025,745
Acting allowances	140,449	310,702
Housing benefits and allowances	307,946	254,949
Current service cost	217,000	159,000
Other allowances	152,805	126,740
	26,768,803	**23,706,984**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

26. Employee related costs (continued)

Remuneration of Municipal Manager (Mr. Lefora QW)

Annual remuneration	565,200	360,000
Performance bonus, 13th cheque and backpay	33,147	-
Travel, motor car and other allowances	243,569	93,427
Contribution to UIF , medical aid and pension funds	148,188	165,907
	990,104	**619,334**

The Municipal Manager was appointed during November 2012.

Remuneration of the Chief Financial Officer (Mr. Moses TO)

Annual remuneration	483,811	455,557
Performance bonus, 13th cheque and backpay	25,680	21,000
Travel, motor car and other allowances	228,404	115,081
Contribution to UIF , medical aid and pension funds	115,087	187,019
	852,982	**778,657**

Remuneration of acting director - Technical services (Mr. Tsekedi TM)

Annual Remuneration	157,201	219,739
Performance bonus, 13th cheque and backpay	19,650	26,130
Travel, motor car and other allowances	143,332	208,454
Contribution to UIF , medical aid and pension funds	53,888	75,372
	374,071	**529,695**

The Area Manager of Wepener acted as Director Technical Services in the prior year and from the period July 2013 to February 2014.

Remuneration of acting director - Technical services (Mr. Mohapi LI)

Annual Remuneration	93,165	-
Performance bonus, 13th cheque and backpay	24,130	-
Travel, motor car and other allowances	59,720	-
Contribution to UIF , medical aid and pension funds	28,690	-
	205,705	**-**

The Environmental Health Practitioner acted as the Director Technical Services from the period March 2014 to May 2014.

Remuneration of director - Corporate services (Ms. Sigadi N)

Annual Remuneration	470,372	446,247
Performance bonus, 13th cheque and backpay	24,665	28,728
Travel, motor car and other allowances	222,856	133,073
Contribution to UIF , medical aid and pension funds	111,902	167,994
	829,795	**776,042**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

27. Remuneration of councillors

	2014	2013
Executive mayor	460,308	458,701
Deputy Executive Mayor	141,791	-
Councillors	870,772	961,492
Travel, motor car and other allowances	492,675	506,560
	1,965,546	**1,926,753**

In-kind benefits

The Executive Mayor, Chief whip and Councillors are full-time. The Executive Mayor is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to the use of a Council provided vehicle for official duties and has one full-time bodyguard and a driver at the cost of the Council.

The councillor and public office bearer remuneration are within the Upper Limits as determined by Government Gazette 37281 of 29 January 2014.

Executive Mayor	Basic Salary	Performance bonus, 13th cheque and backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Ms. Mahase M	447,471	12,837	154,511	17,704	632,523
Total	447,471	12,837	154,511	17,704	632,523

Deputy Executive Mayor	Basic Salary	Performance bonus, 13th cheque and backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Mr. Tladi GM	133,478	8,312	45,800	76	187,666
Total	133,478	8,312	45,800	76	187,666

Councillors	Basic Salary	Performance bonus, 13th cheque and backpay	Travel, motor car and other allowances	Contribution to medical aid and pension funds	Total
Mr. Haddad MG	134,078	3,846	57,646	76	195,646
Mr. Mahloko MD	134,078	6,745	46,350	76	187,249
Mr. Makitle J	134,078	5,787	46,214	76	186,155
Mr. Rakhunoane K	133,478	3,847	57,646	12,642	207,613
Mr. Sehloho ML	171,449	5,459	11,322	76	188,306
Mr. Seoko MM	134,078	3,847	42,356	76	180,357
	841,239	**29,531**	**261,534**	**13,022**	**1,145,326**

28. Depreciation

	2014	2013
Property, plant and equipment	17,009,570	18,355,397

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

29. Impairment of assets

Impairments		
Property, plant and equipment	189,768	-
- Assets which are no longer in use were impaired.		
Trade and other receivables	23,716,048	3,207,871
- Allowances for the irrecoverability of debts outstanding were estimated and recognised accordingly.		
	23,905,816	**3,207,871**

30. Finance costs

Employee benefits	210,000	181,000
Finance leases	-	219,772
External loans	31,678	36,242
Other interest paid	1,308,927	1,670,471
	1,550,605	**2,107,485**

31. Repairs and maintenance

Repairs and maintenance	2,577,983	2,725,845

32. Bulk purchases

Electricity	15,485,041	15,296,811
Water	5,396,249	4,965,018
	20,881,290	**20,261,829**

Distribution losses incurred on water and electricity purchases:

2014	**Total sales (units)**	**Less total purchases (units)**	**Loss (units)**	**% Loss on purchases (units)**	**Rand value of loss at purchase price**
Electricity (kilowatt)	14,056,582	18,448,125	(4,391,543)	24 %	3,470,347
Water (kiloliters)	470,430	1,394,345	(923,915)	66 %	5,933,288
	14,527,012	**19,842,470**	**(5,315,458)**		**9,403,635**

2013	**Total sales (units)**	**Less total purchases (units)**	**Loss (units)**	**% Loss on purchases (units)**	**Rand value of loss at purchase price**
Electricity (kilowatt)	7,946,954	17,787,575	(9,840,621)	55 %	11,237,761
Water (kiloliters)	638,457	1,190,966	(552,509)	46 %	6,319,934
	8,585,411	**18,978,541**	**(10,393,130)**		**17,557,695**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

33. General expenses

Audit fees	1,652,987	2,765,899
Advertising	212,409	192,676
Bank charges	66,647	65,221
Connection fees	212,598	353,670
Rental of vehicles	2,491,697	1,066,479
Consulting fees	217,234	220,120
Legal expense	727,726	-
Expanded public works programme expenses	848,184	-
Entertainment	33,012	20,839
Admin fees	164,048	63,607
Electricity	2,968,655	3,199,840
Impairment of inventory	-	30,873
Special community programmes	737,444	858,496
Travel and subsistence	401,795	234,721
IDP	167,310	-
Household electrification	-	438,596
Fuel and oil	322,342	460,066
PMU expenditure	12,429	440,987
Insurance	1,482,087	1,100,842
Rental of equipment	499,790	83,309
Other expenses	847,892	882,586
Postage	151,957	136,611
Printing and stationery	234,131	163,302
Proffesional fees	1,583,986	171,615
Rehabilitation cost	706,507	705,251
License fees	93,165	504
Membership fees	1,060,887	419,260
Telephone cost	997,531	727,108
Training	138,757	239,187
Uniforms and overalls	121,186	39,929
Grant expenditure	2,499,809	2,213,712
	21,654,202	**17,295,306**

34. Operating lease

Operating leases - as lessee (expense)		
- within one year	653,051	488,045
- in second to fifth year inclusive	945,402	908,621
	1,598,453	**1,396,666**

Operating leases - as lessor (income)		
- within one year	114,913	103,347
- in second to fifth year inclusive	311,164	287,617
	426,077	**390,964**

Operating lease payments represent rentals payable by the municipality for certain of its vehicles being rented from the Government Garage. Leases are negotiated for an average term of 5 years or less depending on the type of vehicle rented, rentals paid include a fixed and a variable cots factor depending on the amount of kilometers traveled during the period. Rent paid for computer equipment is month to month and could be cancelled with a month's notice by either party and is not disclosed as part of the commitments above.

Operating lease income represent rentals payable by Vodacom, MTN and Cell C for rental of municipal land for their towers. Leases are negotiated for an average term of 5 years or less.

The escalation varies between 6.3% to 10% for operating leases as lessee.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

35. Fair value adjustments

Investment property	1,430,000	-
Other financial assets	(24,520)	-
	1,405,480	**-**

36. Financial instruments disclosure

Categories of financial instruments

2014

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	98,010	-	98,010
Receivables from exchange transactions	-	2,356,746	2,356,746
Receivables from non-exchange transactions	-	1,059,773	1,059,773
Cash and cash equivalents	-	4,427,806	4,427,806
	98,010	**7,844,325**	**7,942,335**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	309,590	309,590
Trade and other payables from exchange transactions	24,938,463	24,938,463
Consumer deposits	568,828	568,828
Unspent grants	4,057,363	4,057,363
	29,874,244	**29,874,244**

2013

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	73,490	-	73,490
Receivables from exchange transactions	-	12,517,809	12,517,809
Receivables from non-exchange transactions	-	3,603,621	3,603,621
Cash and cash equivalents	-	1,441,224	1,441,224
	73,490	**17,562,654**	**17,636,144**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	423,436	423,436
Trade and other payables from exchange transactions	29,307,748	29,307,748
Consumer deposits	560,683	560,683
Unspent conditional grant	112,523	112,523
	30,404,390	**30,404,390**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

37. Cash generated from operations

(Deficit) surplus	(12,022,511)	3,693,223
Adjustments for:		
Depreciation and amortisation	17,009,570	18,355,397
Gain on sale of assets and liabilities	95,769	617,488
Fair value adjustments	1,405,480	-
Finance costs - Finance leases	-	219,772
Impairment deficit	23,905,816	3,207,871
Movements in retirement benefit assets and liabilities	296,000	455,000
Movements in provisions	706,508	705,250
Water income provision	(554,188)	(73,251)
Other non-cash items	150,692	(29,696,134)
Changes in working capital:		
Inventories	(31,220)	30,873
Receivables from exchange transactions (for public entities)	(9,715,823)	(2,285,602)
Other receivables from non-exchange transactions	(987,867)	29,188,067
Payables from exchange transactions	(4,369,285)	2,152,257
VAT	(615,167)	2,379,075
Unspent conditional grants and receipts	3,945,113	(3,456,312)
Consumer deposits	8,145	160,061
	19,227,032	**25,653,035**

38. Commitments

Authorised expenditure

Authorised operating expenditure		
• Operating activities	2,666,136	112,523
Authorised capital expenditure		
• Approved and contracted for	146,428	10,697,856
• Approved and not yet contracted for	7,200,740	9,384,060
	7,347,168	**20,081,916**

This committed expenditure relates to property and will be financed by available bank facilities, accumulated surpluses, existing cash resources and funds internally generated.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Contingent assets / (Contingent liabilities)

	2014	2013
MIIB - (Illegal contract)		
Opening balance	(6,000,000)	(8,515,184)
Adjustments made	-	2,515,184
	(6,000,000)	**(6,000,000)**
Tankiso Griesel - (Unfair dismissal)		
Opening balance	(600,000)	(399,755)
Adjustments made	-	(200,245)
	(600,000)	**(600,000)**
Landfill sites - (Licences)		
Opening balance	(10,000,000)	(10,000,000)
T Nchejane - (Overpayment of account)		
Opening balance	-	10,520
Payments received	-	(10,520)
	-	**-**
Kovsie Country Lodge CC - (Outstanding account)		
Opening balance	(9,032)	(9,032)
Payments made	9,032	-
	-	**(9,032)**
Das Ram Boerdery/ CB Kotze/ FP Strauss - (Damages)		
Current year contingencies	2,893,119	-
Ngalo & 22 others - (Unfair dismissal)		
Opening balance	-	-
Current year contingencies	1,000,000	-
	1,000,000	**-**
Ngalo & 22 others - (Interpretation of collective agreement)		
Opening balance	(150,000)	(150,000)
Additional contingencies	(3,850,000)	-
	(4,000,000)	**(150,000)**
E.H van den Berg - (Damages)		
Additional contingencies	(624,105)	-

MIIB - The Municipality entered into an agreement for the installation of a SAP financial system. The matter has been taken to court because the Municipality believes that the contract was entered into illegally because the supply chain process were not followed. The expected date of finalisation is during the 2015 financial year.

Tankiso Griesel - The Municipality is in a court case with its former employee for an alleged unfair dismissal. The matter is in Labour Court of South Africa. If the Municipality looses they are to pay back the salary of the employees retrospectively from the date of termination of employment. The expected date of finalisation is during the 2015 financial year.

Landfill sites Licences - The Municipality does not have a valid landfill site licence. This will result into a possible fine of R10 million from the Department of Environmental Affairs.

39. Contingent assets / (Contingent liabilities) (continued)

T Nchejane - An amount was incorrectly paid to him. He however repaid the amount in the 2013 financial year.

Kovsie Country Lodge CC - The case was settled in full during the 2014 financial year.

Das Ram Boerdery/ CB Kotze/ FP Strauss - The plaintiffs are claiming damages from the municipality due to a field fire started by the municipality. The expected date of finalisation is uncertain.

Ngalo & 22 others (Unfair dismissal) - The Municipality is in a court case with its former employees for an alleged unfair dismissals. The matter is in Labour Court of South Africa. If the Municipality looses they are to pay back the salary of the employees retrospectively from the date of termination of employment. The expected date of finalisation is during the 2017 financial year.

Ngalo & 22 others - (Interpretation of collective agreement) - There is a dispute over the SALGBC interpretation of the collective agreement. The expected date of finalisation is during the 2017 financial year.

E.H van den Berg - He is claiming damages from the municipality due to a field fire started by the municipality. The expected date of finalisation is expected to be in the 2015 financial year.

N S Mgudlwa - Unauthorised use of the Municipality vehicle by the employee and had an accident with the Municipality's vehicle. The employee resigned during the 2014 financial year. The case was not pursued and she repaid the vehicle on her own cost.

40. Related parties

Relationships	
Accounting Officer	Refer to Accounting Officer's report.
Councillors	Refer to note on remuneration of councillors
Members of key management	Refer to note on employee cost.

No related party transactions were incurred during the year under review.

41. Prior period errors

The prior year has been amended to account for the following prior period errors.

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

1. **Suspense accounts**

The salary suspense account was cleared in the current financial year for which the transactions related to the 2012/2013 financial year.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position	
Payables from exchange transactions	(280,473)
Adjustments affecting the statement of financial performance	
Personnel	365,746
Remuneration of councillors	(85,273)
	280,473

2. Bulk purchases

Two bulk purchase invoices were captured in the 2013/2014 financial year and should have been recorded in the 2012/2013 financial year. Interest was also included in the bulk purchases recorded.

Figures in Rand	2014	2013

41. Prior period errors (continued)

The effect of these adjustments on the prior year are as follows:

Adjustments affecting the statement of financial position	
Payables from exchange transactions	(574,218)

Adjustments affecting the statement of financial performance	
Bulk purchases	379,260
Finance cost	194,958
	574,218

3. Employee benefit obligation

The 2013/2014 financial year is the first year that the municipality made assumption for employee benefit obligations and recognised the liability. These valuations were performed by ZAQ.

The effect of this adjustment on the prior year is as follows:

Adjustment against the opening accumulated surplus / (deficit)	2,281,000

Adjustments affecting the statement of financial position	
Employee benefit obligation	(2,736,000)

Adjustments affecting the statement of financial performance	
Actuarial (gain) / loss	268,200
Finance cost	194,958
Personnel	5,800
	468,958

4. Receivables were not correctly split between exchange and non exchange receivables.

During the 2013/2014 financial year the municipality accounted for the employee benefit obligation for the first time. A retrospective correction was made to the prior year.

The effect of these adjustments on the prior year are as follows:

Adjustments affecting the statement of financial position	
Receivables from exchange transaction	3,950,920
Receivables from non exchange transaction	(3,950,920)
	-

5. Closure cost for landfill sites

The municipality obtain a closure valuation report for the landfill sites at all 3 towns. The liability was recorded for the first time during the 2013/2014 financial year.

The effect of these adjustments on the prior year are as follows:

Adjustment against the opening accumulated surplus / (deficit)	10,720,272

Adjustments affecting the statement of financial position	
Provisions	(11,425,524)

Adjustments affecting the statement of financial performance	
General expenditure	705,251

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

41. Prior period errors (continued)

6. Retentions

The retention amount was incorrectly captured during the 2011/2012 financial year. The amount was corrected in the 2013/2014 financial year.

The effect of these adjustments on the prior year are as follows:

Figures in Rand	2014	2013

41. Prior period errors (continued)

Adjustment against the opening accumulated surplus / (deficit)		(144,160)

Adjustments affecting the statement of financial position

Payables from exchange transactions		144,160

7. Work in progress

The opening balance of the 2011/2012 financial year was incorrect. The amount was corrected in the current year.

The effect of these adjustments on the prior year are as follows:

Adjustment against the opening accumulated surplus / (deficit)		1,998,278

Adjustments affecting the statement of financial position

Property, plant and equipment		(1,998,278)

8. VAT

Input VAT was claimed on qualifying expenditure during the year and accordingly claimed from SARS, these transactions were however not recorded in the financial statements.

The effect of the adjustment on the prior year is as follows:

Adjustment against the opening accumulated surplus / (deficit)		(335,272)

Adjustments affecting the statement of financial position

VAT		335,272

9. Allowance for impairment

The allowance for impairment for receivables were recalculated and the necessary correction were made.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position

Receivables from exchange transactions		(3,207,871)

Adjustments affecting the statement of financial performance

Impairments		3,207,871

10. Service charges incorrectly levied.

Service charges were charged against their own municipal property. These amounts have been corrected and reversed in the current financial year..

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

41. Prior period errors (continued)

Receivables from exchange transactions		(68,502)
Receivables from non-exchange transactions		(83,214)
VAT		18,268
		(133,448)

Adjustments affecting the statement of financial performance

Other income		2,963
Property rates		72,995
Service charges		57,490
		133,448

11. Receivables with credit balances.

The receivableswith credit balances at year end were transferred to payables.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position

Payables from exchange transaction		(183,098)
Receivables from exchange transactions		21,421
Receivables from non-exchange transactions		161,677
		-

12. Water estimates.

The municipality calculated the amount of water income for meters not read on a monthly basis and meters that are read before year end.

The effect of this adjustment on the prior year is as follows:

Adjustment against the opening accumulated surplus / (deficit)		(129,861)

Adjustments affecting the statement of financial position

Receivables from exchange transactions		203,112

Adjustments affecting the statement of financial performance

Service charges		(73,251)

13. Centlec loan

The Centlec opening balance in the 2011/2012 financial year was incorrect, the opening balances was corrected during the 2013/2014 financial year.

The effect of this adjustment on the prior year is as follows:

Adjustment against the opening accumulated surplus / (deficit)		(50,286)

Adjustments affecting the statement of financial position

Payables from exchange transactions		50,286

Figures in Rand	2014	2013

41. Prior period errors (continued)

14. Electricity sales

The amount of electricity sales recorded in the 2012/2013 financial year was incorrect. The amount was however corrected in the 2013/2014 financial year.

The effect of this adjustment on the prior year is as follows:

Adjustments affecting the statement of financial position	
Payables from exchange transaction	395,105
Adjustments affecting the statement of financial performance	
Service charges	(395,105)

15. VAT

The opening balance of the VAT account was incorrect as at 30 June 2012. This balance was corrected in the current financial year.

The effect of this adjustment on the prior year is as follows:

Adjustment against the opening accumulated surplus / (deficit)	114,661
Adjustments affecting the statement of financial position	
VAT	(114,661)
Employee benefits - non current	-
	(114,661)
Adjustments affecting the statement of financial performance	
Service charges	(73,251)

41. Prior period errors (continued)

Statement of Financial Performance for the year ended	Balance as previously reported	Prior period error	Reclassified	Restated balance
Revenue				
Service charges	(26,575,914)	(410,867)	-	(26,986,781)
Rental of facilities and equipment	(318,711)	-	-	(318,711)
Other income	(1,707,482)	2,963	-	(1,704,519)
Interest received - investment	(258,982)	-	-	(258,982)
Dividends received	(3,061)	-	-	(3,061)
Property rates	(6,573,598)	72,995	2,630,407	(3,870,196)
Government grants and subsidies	(58,552,272)	-	-	(58,552,272)
Public contribution and donations	(2,203,663)	-	-	(2,203,663)
Total revenue	(96,193,683)	(334,909)	2,630,407	(93,898,185)
Expenditure				
Personnel	23,404,100	302,884	-	23,706,984
Remuneration of councillors	1,943,364	(16,611)	-	1,926,753
Depreciation	18,334,008	21,390	-	18,355,398
Impairment loss	-	3,207,871	-	3,207,871
Finance cost	1,731,528	375,958	-	2,107,486
Repairs and maintenance	2,725,844	-	-	2,725,844
Bulk purchases	19,882,569	379,261	-	20,261,830
General expenditure	19,220,462	705,251	(2,630,407)	17,295,306
Total expenditure	87,241,875	4,976,004	(2,630,407)	89,587,472
Actuarial (gain) / loss	-	268,200	-	268,200
Gain/ (loss) on disposal of assets and liabilities	349,288	-	-	349,288
Surplus / (deficit) for the year	349,288	268,200	-	617,488

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

41. Prior period errors (continued)

Statement of Financial Position

		Balance as previously reported	Prior period error	Reclassified	Restated balance
Assets					
Current Assets					
Inventories		49,787	-	-	49,787
Receivables from non-exchange transactions		-	(3,872,457)	7,476,078	3,603,621
VAT receivable		354,664	238,879	-	593,543
Receivables from exchange transactions		19,094,807	899,080	(7,476,078)	12,517,809
Cash and cash equivalents		1,441,224	-	-	1,441,224
Total current assets		20,940,482	(2,734,498)	-	18,205,984
Non-current Assets					
Investment property		2,520,000	-	-	2,520,000
Property, plant and equipment		266,176,809	(1,935,117)	-	264,241,692
Intangible assets		311,040	-	-	311,040
Other financial assets		73,490	-	-	73,490
Total non-current assets		269,081,339	(1,935,117)	-	267,146,222
Liabilities					
Current Liabilities					
Payables from exchange transactions		(28,859,503)	(448,239)	-	(29,307,742)
Retirement benefit obligation		-	(166,964)	-	(166,964)
Unspent conditional grants and receipts		(112,523)	-	-	(112,523)
Other financial liabilities		(113,845)	-	-	(113,845)
Consumer deposits		(560,683)	-	-	(560,683)
Total current liabilities		(29,646,554)	(615,203)	-	(30,261,757)
Non-current Liabilities					
Provisions	-	(11,425,524)	-	-	(11,425,524)
Retirement benefit obligation	-	(2,569,036)	-	-	(2,569,036)
Other financial liabilities	(309,591)	-	-	-	(309,591)
Total non-current liabilities	(309,591)	(13,994,560)	-	-	(14,304,151)
Net Assets					
Accumulated surplus - Opening balance		(251,463,156)	14,370,082	-	(237,093,074)
Surplus / (deficit) for the year		(8,602,520)	4,909,296	-	(3,693,224)
Total net assets		(260,065,676)	19,279,378	-	(240,786,298)

42. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: credit, liquidity and market risk.

Figures in Rand	2014	2013

42. Risk management (continued)

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June, 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	108,475	309,230	-	-
Payables from exchange transactions	24,938,463	-	-	-

At 30 June, 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	113,845	108,475	200,755	-
Payables from exchange transactions	29,307,748	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets exposed to credit risk at year end were as follows:

	2014	2013
Receivables from exchange transactions	2,356,746	12,517,809
Receivables from non-exchange transactions	1,059,773	3,603,621
Cash and cash equivalents	4,427,806	1,441,224
Other financial assets	98,010	73,490

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets or liabilities, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

43. Going concern

We draw attention to the fact that at 30 June, 2014, the municipality had accumulated surplus of R 228,763,790 and that the municipality's total assets exceed its liabilities by R 228,763,790.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

44. Events after the reporting date

Management is not aware of any events that happed after the reporting date that requires disclosure.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

45. Unauthorised expenditure

Opening balance	69,192,615	69,192,615
Incurred during the current year	12,022,511	-
	81,215,126	**69,192,615**

Council are in the process of investigating the prior year's unauthorised expenditure.

46. Fruitless and wasteful expenditure

Opening balance	4,244,236	2,428,553
Fruitless and wasteful expenditure incurred during the year	1,185,833	1,815,683
	5,430,069	**4,244,236**

Council are in the process of investigating the prior year's unauthorised expenditure.The current and prior year fruitless and wasteful expenditure was mostly incurred due to budget constraints.

Interest were incurred on the following overdue accounts for the current and prior year:

Fruitless and wasteful expenditure - current year		
Auditor General	6,085	20,973
Bloemwater	1,174,732	1,758,082
Coetzee werkswinkel	-	8
Compensation Fund	-	14,818
Eskom	702	1,366
OVK	478	939
SARS	-	17,283
UOVS	1,534	-
Telkom	2,302	2,214
	1,185,833	**1,815,683**

47. Irregular expenditure

Opening balance	2,515,627	1,394,175
Irregular Expenditure - current year	530,837	-
Irregular expenditure incurred during the year	-	1,121,452
	3,046,464	**2,515,627**

Analysis of expenditure awaiting condonation per age classification

Current year	530,837	1,121,452
Prior years	2,515,627	1,394,175
	3,046,464	**2,515,627**

Notes to the Annual Financial Statements

Figures in Rand		2014	2013

47. Irregular expenditure (continued)

Details of irregular expenditure condoned - Current year

Deviations from normal supply chain procedures		
Price: R2 000 to R10 000	Anta Boga Hotel	7,840
	AT Mpiti	2,600
	Lethlaka Communication	7,871
	Matshepang Trading	3,600
	Media 24	2,052
	Peermont Metcourt	4,860
	Phumela Guest House	5,220
	Protea Hotel	2,148
	Seipone News Time	5,600
	Thokoa Trading	4,700
Price: R10 000 to R30 000		
	AT Mpiti	11,700
	Hilton Hotel	14,720
	Imfo	11,633
	Lambons	13,824
	Lethlaka Communication	14,897
	Phomane Transport	20,900
	Protea Hotel	15,283
	Qibing Trading	10,634
	The New Age	28,318
	Xhariep Independent	20,500
Price: R30 000 to R200 000		
	Lethlaka Communication	37,047
	Seipone News Time	47,390
	Xhariep Independent	38,000
	Yes Media	199,500
		530,837

Notes to the Annual Financial Statements

Figures in Rand		2014	2013

47. Irregular expenditure (continued)

Details of irregular expenditure condoned - Prior year

Deviations from normal supply chain procedures			
Price: R2 000 to R10 000			
	Afro Villa		6,300
	Agri Aqua Solutions		2,120
	B Khamali		7,400
	Dewetsdorp slaghuis		2,063
	Gold rest		2,040
	Holiday Inn Express		7,533
	Jababtha Paper and Stationery		8,279
	JC Grens Motors		4,685
	Kopannokeng		2,676
	Letlaka communications		9,208
	Lithotech		3,021
	Masutsa		3,000
	Monte Christo Country Lodge		2,450
	Network & Computing Consultant (NCC)		9,701
	Orion Hotel		3,062
	PA Lumisi		3,800
	Protea Hotel Karridine		4,794
	Protea Hotel OR Tambo		4,141
	Riverside Hotel & Spa		5,400
	SAN Parks (Golden Hotel)		8,595
	Seipone News		5,600
	TS Nchejane		6,000
	Wepener Drukkers		5,725
	Xerox (Bytes Technology)		2,070
Price: R10 000 to R30 000			
	AS de Jonge		20,700
	BSCOM General Trading		29,433
	CHH Knauff		29,548
	Delsie Nursery		25,000
	Iponeng Catering		14,250
	Kevcor		24,422
	Kevcor		16,039
	Mega Works Enterprise		19,800
	Much Asphalt		14,000
	Multitech Corporation		10,960
	OVK		26,418
	OVK		11,459
	Riverside Hotel & Spa		10,800
	SAPO		14,628
	Seipone News		11,200
	The New Age		22,846
	Thepa Trading		27,588
	Xhariep Independent		13,500
Price: R30 000 to R200 000			
	Botra Bus Service		41,500
	LC Power Pumps		58,140
	Letlaka Communications		43,543
	Lithotech		31,488
	Maximum Profit		95,553
	Much Asphalt		42,000
	OVK		148,914
	Seipone News		37,698
	The New Age		31,738
	TNA Media		86,625

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

47. Irregular expenditure (continued)

Xhariep Independent		42,000
		1,121,453

No losses has been recovered during the financial year due to irregular expenditure. The municipality did not pursue any criminal or disciplinary hearings due to losses as no criminal or fraudulent activities were identified.

48. Discount received

	2014	2013
Discount received per supplier		
Bloemwater	8,146,510	-

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

	2014	2013
Opening balance	545,387	95,387
Current year subscription / fee	500,000	850,000
Other related expenditure	15,500	19,260
Amount paid - current year	(465,500)	(419,260)
Amount paid - previous years	(95,387)	-
	500,000	**545,387**

Material losses through criminal conduct

No material losses through criminal conduct were reported.

Audit fees

	2014	2013
Opening balance	(1,170,836)	-
Current year subscription / fee	2,726,423	3,145,116
Interest	1,831	21,130
Amount paid - current year	(1,304,992)	(4,337,082)
	252,426	**(1,170,836)**

PAYE and UIF

	2014	2013
Current year subscription / fee	2,872,763	2,464,136
Amount paid - current year	(2,710,459)	(2,464,136)
	162,304	**-**

Pension and medical aid deductions

	2014	2013
Current year subscription / fee	6,113,652	4,837,408
Amount paid - current year	(6,101,746)	(4,837,408)
	11,906	**-**

VAT

	2014	2013
VAT receivable	4,994,815	3,734,505
VAT payable	(3,786,098)	(3,140,955)
	1,208,717	**593,550**

All VAT returns have been submitted by the due date throughout the year.

49. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2014:

30 June, 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. Haddad MG	1,224	-	1,224
Ms. Mahase M	422	6,671	7,093
Mr. Mahloko MD	422	5,300	5,722
Mr. Makitle J	269	3,012	3,281
Mr. Rakhunoane K	848	4,074	4,922
Ms. Sehloho (Molise) ML	200	1,675	1,875
Mr. Seoko MM	422	6,020	6,442
Mr. Tladi GM	65	533	598
	3,872	**27,285**	**31,157**

30 June, 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. Haddad MG	229	-	229
Ms. Mahase M	511	4,280	4,791
Mr. Mahloko MD	399	4,280	4,679
Mr. Makitle J	62	2,573	2,635
Mr. Rakhunoane K	184	2,507	2,691
Ms. Sehloho (Molise) ML	126	948	1,074
Mr. Seoko MM	399	4,356	4,755
Mr. Tladi GM	62	276	338
	1,972	**19,220**	**21,192**

During the year the following Councillors’ had arrear accounts outstanding for more than 90 days.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Refer to the Irregular expenditure note for a comprehensive list disclosed.

51. Budget differences

Material differences between budget and actual amounts

51. Budget differences (continued)

X1: The decrease in service charges are mainly attributable to the municipality's inability to properly account for distribution losses on bulk water purchases due to excessive water leakages emanating form inadequate budgeting for repairs and maintenance resulting in potential revenue being forgone; migratory patterns along the Lesotho border which is directly affected by the provision of services to foreigners who do not qualify as indigents; and inability to collect more revenues as a result of high unemployment rate an inadequate and/or lack of sustainable economic activities. The service provider for electricity, Centlec, had reported distribution losses of 38.92% which also contributed in a lower service charges amount.

X2: During the current financial period the municipality became aware that they had incorrectly accounted for rental of facility and equipment income on inactive accounts. This fact had not been known during budgetary proceedings.

X3: During the current financial period Naledi Local Municipality had entered into discussions with Bloemwater as to the long outstanding disputes emanated from prior years. The municipality and Bloemwater had finally reached consensus and agreed to certain conditions that had to be met by Naledi to receive the intended discount/write off of outstanding capital and finance charges. During budget proceedings the negotiations had not been finalised and it had not been clear as to whether any write off or discount would be received.

X4: Inaccurate assumptions used during the budget process.

X5: During budget proceedings the municipality had taken into consideration only the interest that would be derived from investments, but not from the secondary and the primary bank accounts on funds available.

X6: Estimations form dividends had been based on trends form the 2011/2012 to the 2012/2013 financial years as significant increases in dividend income had been experiences. Due to economic pressure it is presumed that earnings had not been as expected and the municipality had overestimated dividend income.

X7: During the financial year the municipality had discovered that they had inadvertently been charging themselves property rates and other items. This had been corrected and lead to a decrease in revenue for property rates.

X8: Fines are issued by the Department of Roads and Transport and the Police. Therefore the budgeted amount is based on historical trends and is based on highly uncertain estimations.

X9: During the current financial year Naledi Local Municipality had entered into discussions with Bloemwater as to the long outstanding disputes emanating from prior years. The municipality and Bloemwater had finally reached consensus and agreed to certain conditions that had to be met by Naledi to receive the intended discounts/write off of outstanding capital and finance charges. During budget proceedings the negotiations had not been finalised and it had not been clear as to whether any write off or discount would be received. The amount for the impairment of the capital debt amounting to R5 000 000 had been recognized as a grant as it had been given in accordance with the provisions of section 43(1) - (6) of the Public Finance Management Act, 1999 read with Treasury Regulation 6.3, for the financial assistance. Naledi Local Municipality had complied and met the conditions of the arrangement and revenue was recognised thereon.

X10: During budgetary proceedings consideration had not been given to projects concluding earlier that expected.

X11: Wage increases for municipal staff continue to exceed consumer inflation. The municipality intended to fill all the vacancies e.g. within the finance department, but due to market related salaries of the vacancies, cost reprioritization and cash management strategy the municipality was unable to fill the positions.

X12: Due to budget constraints no transfer payments were done.

X13: The amount for depreciation and amortisation for budget purposes had been made through estimations. The municipality had not foreseen the degrading and wear and tear of assets to the extent that had been identified through physical verification and annual evaluation of residual value and remaining useful life. Ageing and poorly maintained water-, roads- and infrastructure, cash flow eliminations and declining cash reserves of the municipality, has contributed to certain assets not being properly maintained which affected residual value, remaining useful life and hence affecting write off policies.

X14: As discussed per above, Naledi Local Municipality and Bloemwater had been in a dispute regarding long outstanding capital debt and interest compounding thereon. The municipality had included the outstanding amounts owed in bulk purchases.

X15: The municipality has been under-budgeting for debt impairment over the past years, and during the budget bilateral with

51. Budget differences (continued)

the Provincial Treasury, it was brought to the attention of the municipality that the item should be reasonably budgeted. In responding, for the budget year 2013/2014, the municipality is currently collecting approximately 10% from outstanding debtors; the implementation of an effective revenue management strategy will assist the municipality to increase its recovery rate to at leas 50% (i.e. conservative figure subject to realistic socio-economic imperatives affecting the area). Due to system failure in 2012/2013 it had been deemed necessary not to impair debt for the 2013/2014 financial year as accurate data for the entire 12 month period ending 30 June 2013 is not available. The allowance for impairment of receivables had been revaluated and implemented to reflect that only approximately 9% of all outstanding debtors are received. The implementation of an effective revenue management strategy will be implemented in the 2014/2015 financial year.

X16: Bulk purchases are directly influenced by the purchase of water from Bloemwater. The outstanding amounts owed and the annual price increases had been factored in the budget appropriation and are directly influencing the revenue provisions. The expenditure relatively caters for distribution losses on water. As per discussion above, of the outstanding capital debt and interest had been written off by Bloemwater, therefore less expenditure had been incurred.

X17: Due to cash flow limitations and declining cash reserves of the municipality various campaigns had been undertaken to reduce costs within the municipality.

X18: During budgetary proceedings the municipality did not anticipate a change in the fair value of investment properties. The property had been revalued as to comply with the necessary requirements of GRAP during the 2013/2014 financial year and the property value had been adjusted downwards. A similar valuation had not been performed in the prior year leading to a larger amount of fair value adjustment.

X19: During budgetary proceedings the municipality had not complied with the requirements of GRAP in terms of valuations of the defined benefit plans, etc. With preparations of the annual financial statements a valuation was performed and an actuarial loss was recognised.